

COVER SHEET

2.15 The Herb Farm & Café Ltd: Manufacturing and Capability Expansion Project PGF Application		For: Approve	
Tier:	1 - Regional	Sector:	Primary Industry
Background & context:		Recommendation:	
<p>Applicant Organisation:</p> <ul style="list-style-type: none"> The Herb Farm & Café Ltd <p>Location:</p> <ul style="list-style-type: none"> Manawatu Whanganui <p>Proposal:</p> <ul style="list-style-type: none"> Manufacturing and Capability Expansion Project <p>Funding Sought:</p> <ul style="list-style-type: none"> Total project value: \$^{Commercial Inform} PGF Funding: \$261,000 Grant <p>Background:</p> <p>The Herb Farm & Café Ltd manufactures 100% natural skincare products. The PGF funding is required to accelerate the construction of the planned new manufacturing and warehousing facility. The proposed expansion is supported by steady market growth (both local and export).</p> <p>The applicant has been working hard over the last 3 years to push into new international markets</p> <p>Commercial Information</p> <p>MFAT and MPIs trade policy group have been consulted on this application. They are both confident that the proposed funding package meets NZ's WTO obligations:</p>		<p>We recommend that the SROs:</p> <p>a) Note That the applicant is co-contributing \$^{Commercial Inform} towards this project. The proposal is to raise \$^{Commercial Inform} as Commercial Information with the balance of \$^{Commercial In} from Commercial Information</p> <p>b) Note That annual financial accounts have been provided; these indicate the company is in a sound financial position and is trading profitably. Although financials are sound, existing bank debt levels means without PGF support the proposal will not proceed.</p> <p>c) Note That the Herb Farm & Café currently employ ^{Comm} FTEs and that an additional ^{Comm} FTEs are estimated to be established through the successful implementation of this project.</p> <p>d) Note That the applicant is actively working with MSD to on board NEETS into the newly established positions.</p> <p>e) Note That the proposal is very well supported from regional stakeholders including the Manawatu District Council, the Manawatu Chamber of Commerce, Central Districts Economic Development Agency and Accelerate25.</p> <p>f) Note That MPI undertook the initial evaluation of this proposal and full support the application.</p> <p>g) Note That the PGF has assessed the proposal. The project best aligns with the PGF criteria of delivering</p>	

<p>a) MPIs trade policy group have commented that <i>“the support requested is to expand current production capacity rather than constructing a new facility producing solely exports”</i>;</p> <p>b) MFAT’s view is, <i>“if the PGF funding is approved as a loan and that over the life of the loan the interest rate charged to the applicant will be commensurate with commercial lending rates”</i>, then there is no benefit arising and therefore no subsidy under the Subsidies and Countervailing Measures Agreement;</p> <p>c) MPIs trade policy group have advised they have a slight difference of interpretation to MFAT regarding NZ’s WTO obligations. For example, in a scenario in which what is being considered is a subsidy, then, in order to be deemed significant enough for other WTO members to take action, then the value of the subsidy would need to be in excess of 5% of the firm’s previous year’s revenue. Looking at the debt and debt/revenue Information (P17), the subsidy limit would appear to be around \$60-65K.</p> <p>d) MFAT are concerned that, should this funding be provided as a grant or as a concessionary loan (i.e. on less than commercial terms) then they would be concerned that the PGF funding may potentially be considered as a prohibited export subsidy given the export market focus noted in the business plan</p>	<p>benefit to the community through new jobs targeting MSD clients including local NEETS.</p> <p>h) Note That the PDU recommends that funding is provided as a <small>Commercial Information</small> loan with full repayment from either bank refinance or forecast company <small>Commercial In</small>. P&L forecasts have been provided that support this approach. Suggested terms:</p> <ul style="list-style-type: none"> • <small>Commercial Infor</small> • Commercial Information • Commercial Information <p>i) Support the recommendation to Approve \$261,000 from the PGF fund towards ‘The Herb Farm & Café Ltd: Manufacturing and Capability Expansion’ Project subject to:</p> <ul style="list-style-type: none"> • Negotiation of loan terms satisfactory to the PGF; • Confirmation of commercial bank funding of \$<small>Commercial Infor</small>; • Confirmation of project costs satisfactory to the PGF; • Agreed payment schedule against key construction milestones; and • Evidence that all consents or approvals under the Resource Management Act 1991 and the Building Act 2004 have been obtained, and a copy of each provided.
---	---

PGF criteria that this proposal supports:

PGF Criteria	Assessment Commentary	Rating (1✓ to 5✓)
Link with fund and government outcomes		
Creates permanent jobs	<ul style="list-style-type: none"> • <small>Com</small> new FTES 	✓✓✓✓
Delivers benefit to the community	<ul style="list-style-type: none"> • The new FTES will be sourced locally, ideally from the local NEETS cohort 	✓✓✓
Increased utilisation and returns of Maori asset base	<ul style="list-style-type: none"> • No Maori asset base involved with this project 	
Enhanced sustainability of natural assets	<ul style="list-style-type: none"> • The applicant maintains they have taken a sustainability approach to all parts of the business, since its inception in 1993. Good example of how a 	✓✓✓

	<p>business can become internationally successful while minimising its impact on the environment. The company and products are centred on the use of only 100% natural ingredients, both grown locally and sourced from overseas. As they grow the volumes of ingredients, use will significantly increase and encourage the production of the sustainable natural resources.</p>	
Mitigation of climate change effects	<ul style="list-style-type: none"> The expansion of herb beds and native plantings will help to mitigate climate change effects 	✓
Additionality		
Adding value by building on what is already there	<ul style="list-style-type: none"> This project and the expansion of the business, enables the business to leverage off previous market growth (both local and export) and in particular to take advantage of a very recently formalised relationship and distribution agreement with the European consortium. 	✓✓✓
Acts as a catalyst for productivity potential in the region	<ul style="list-style-type: none"> Will add to productivity in the region by up scaling a relatively small production and warehouse facility, to meet the growing demand both locally and internationally. Significant economies of scale will take place in response to growth opportunities, as the business up scales and are able to purchase key supplies in larger quantities. 	✓✓✓
Connected to regional stakeholders and frameworks		
Alignment with regional priorities	<ul style="list-style-type: none"> Well linked to Accelerate25 action plan, priority of land optimisation via high value crops, that are value added via manufacturing processes undertaken in the region. This proposal also links well with Manawatu District Council's (MDC's), Economic Development Strategy. 	✓✓✓✓
Support from local governance groups (inc. Councils, Iwi/Hapu)	<ul style="list-style-type: none"> The applicant has provided letters of support from the Manawatu District Council, the Manawatu Chamber of Commerce, Central Districts Economic Development Agency and Accelerate25. 	✓✓✓✓
Governance, risk management and project execution		
Robust project management and governance systems	<ul style="list-style-type: none"> The project is to build an asset (manufacturing facility and warehouse), have already begun the planning for process and policy changes, new roles and team structure and up-scaled batch processes required for the completion of the build and making the facility operational. 	✓✓✓✓

	<ul style="list-style-type: none"> • Have current maintenance schedules in place for the plant and equipment and this will be updated as required for the new asset/s that are outcomes of this project. • Undertaken extensive work around the applicants supply chain ensuring it is scalable and that they have back-up suppliers of all of their key ingredients and supply elements. Will gain significant economies of scale as the business up scales and are able to purchase key supplies in larger quantities. 	
Risk management approach	<ul style="list-style-type: none"> • Well described, see section 33 of the application form. 	✓✓✓
Future ownership / operational management	<ul style="list-style-type: none"> • The applicant would like to avoid external party equity investment at this point. Commercial information [redacted] and are hesitant to dilute shareholding, and potentially the control of, and core values, of the company. 	✓✓

The purpose of this briefing is to consider recommending PGF funds to the ‘The Herb Farm & Café Ltd: Manufacturing and Capability Expansion’ Project

Risks Issues:

Risk	Mitigation approach	Rating
Delays in EU product registration or market entry	<ul style="list-style-type: none"> - Working closely with the European partner to ensure timing is kept on track as much as possible. - Build in time buffers allowing for potential delays. 	Medium

Eligibility points of note:

- *Due diligence:* Full due diligence has been completed. It is a condition of approval that due diligence is to be to the satisfaction of the Head of PDU Investment team.
- *Conflict(s) of interest:* Based on the information provided no conflict of interest is evident noting that full due diligence will inform this item further.
- *Illegal Activity:* Based on the application information provided and feedback from other agencies there is no indication that the applicant or project has been involved in, or associated with illegal activity.
- *Alignment with Regional development plans:* Linked to Accelerate25 action plan.
- *Commercial funding availability:* Commercial funding is being arranged, however PGF funding is required to cover the balance outside standard bank lending criteria.

Consultation undertaken or implications:

Legal	N/A	HR	N/A	Finance	N/A	MBIE policy	N/A	Other	MPI

Supporting proposal:	Yes
Appendices:	Yes - Applications and supporting letters are as annexes
Sponsor(s):	N/A
Manager/Author of paper:	Nick Hough, Investment Team

PROACTIVELY RELEASED